

Message Text

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E.O. 11652: NA
TAGS: EFIN, CA
SUBJECT: TAX INCREASES UPSET BUSINESS COMMUNITY

BEGIN SUMMARY: SINCE FINANCE MINISTER PARIZEAU ANNOUNCED QUEBEC BUDGET LAST MONTH, BUSINESS FIRMS AND TAXPAYERS HAVE BEEN BUSY FIGURING OUT WHAT INCREASED TAXES ON HIGHER INCOME LEVELS WOULD COST. MANY HAVE NOW DISCOVERED THAT NEW TAX RATES WILL SIGNIFICANTLY INCREASE COSTS OF LOCATION IN QUEBEC, AND THAT SPREAD WITH OTHER PROVINCES, MAINLY ONTARIO AND ALBERTA, WILL WIDEN. EFFECT IS IMPORTANT IN CONTEXT THAT IT FURTHER DIMINISHES MONTREAL'S ATTRACTION AS CENTER FOR MANAGEMENT CADRES. END SUMMARY.

1. WHILE FINANCE MINISTER PARIZEAU'S BUDGET AND STAND ON SALES TAX ISSUE STILL APPEAR TO BE POLITICAL WINNERS AMONG MAJORITY O QUEBECKERS, TOP LEVEL MANAGEMENT IS DISTRUBED BY TAX INCREASES WHICH WILL STRIKE HIGH INCOME BRACKETS. IN ADDITION TO INCREASED TAXES ON REGULAR INCOME, DIVIDEND INCOME AND ESTATES WILL ALSO BE AFFECTED. WHEN BUDGET WAS RELEASED, CONSEQUENCES OF TAX INCREASES WERE NOT IMMEDIATELY APPARENT. SINCE THEN, BOTH FIRMS AND INDIVIDUALS HAVE MADE CALCULATIONS AND HAVE
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FOUND THAT RESIDENCE IN QUEBEC IS GOING TO COST MORE, IN SOME CASES CONSIDERABLY MORE, THAN IT DID BEFORE.

2. FOR MARRIED QUEBEC TAXPAYERS EARNING DOLS 40,000, DOLS 60,000, DOLS 100,000, AND DOLS 150,000 PER YEAR, INCREASE IN TAXES WILL AMOUNT TO DOLS 200, DOLS 1,193, DOLS 3,186 AND DOLS 5,564 RESPECTIVELY. WHILE INCREASES IN THEMSELVES MAY NOT BE LARGE

ENOUGH TO RALLY MUCH PUBLIC SUPPORT FOR COMPLAINTS OF HIGH PAID EXECUTIVES, THEY DO HAVE EFFECT, HOWEVER, OF WIDENING TAX GAP BETWEEN QUEBEC AND OTHER PROVINCES FOR THOSE IN HIGH INCOME BRACKETS. A QUEBECKER, FOR EXAMPLE, EARNING DOLS 60,000 WILL NOW PAY DOLS 5,000 MORE IN TAXES THAN DOES HIS COUNTERPART IN ONTARIO, WITH SPREAD RISING SHARPLY AT HIGHER INCOME LEVELS. IN MOST CASES, NATIONAL AND MULTINATIONAL COMPANIES WILL BE REQUIRED TO INCREASE SALARIES TO MAINTAIN PARITY AND ATTRACT PERSONNEL TO QUEBEC. TOP RATE IN QUEBEC NOW STANDS AT 69 PERCENT, UP FROM 64 PERCENT, AND COMPARES WITH 62 PERCENT RATE IN ONTARIO.

3. PRECISE CALCULATIONS OF COMPARABILITY ARE DIFFICULT BECAUSE OF ROLE PLAYED BY DIVIDENDS IN EXECUTIVE COMPENSATION. BY CHANGING TREATMENT FOR DIVIDENDS IN EXECUTIVE COMPENSATION. BY CHANGING TREATMENT FOR DIVIDENDS IN QUEBEC TAX COMPUTATIONS, TAX BURDEN ON DIVIDENDS FOR TAXPAYERS IN HIGHER INCOME CATEGORIES HAS BEEN SUBSTANTIALLY INCREASED. AT DOLS 60,000 PER YEAR LEVEL, DIVIDENDS WILL BE TAXED AT 53 PERCENT RATE IN QUEBEC AS COMPARED TO 39 PERCENT IN ONTARIO. QUEBEC TAXPAYER WITH INCOME OF DOLS 70,000, COMPOSED EQUALLY OF SALARY AND DIVIDENDS, WOULD FIND THAT HIS INCOME TAX HAD ABOUT DOUBLED. FOLLOWING ANNUAL MEETING OF CONSOLIDATED

BATHURST, PRESIDENT WILLIAM TURNER SAID IT COST COMPANY ABOUT DOLS 3-4 MILLION PER YEAR TO MAINTAIN SALARY PARITY WITH EXECUTIVES IN OTHER AREAS. AS EXAMPLE OF TAXES ON CHIEF EXECUTIVE OFFICER SALARIES, WALL STREET JOURNAL ARTICLE CONTAINED FIGURES SHOWING UNCLASSIFIED

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THAT TOTAL TAX BILL OF IAN SINCLAIR, CHAIRMAN OF CANADIAN PACIFIC, BASED ON SALARY OF DOLS 330,000, WOULD NOW BE DOLS 211,800 AS A QUEBEC RESIDENT, UP FROM DOLS 196,800 LAST YEAR. IF SINCLAIR WERE A RESIDENT OF ALBERTA, WHICH HAS LOWEST TAXES IN CANADA, TOTAL TAXES WOULD AMOUNT TO DOLS 180,600, A DIFFERENCE OF DOLS 31,200.

4. COMMENT: TAX QUESTION IS MOST IMPORTANT IN CONTEXT OF EFFECT ON LOCATION OF HEAD OFFICE ACTIVITIES, WITH ECONOMIC RATIONALE, EVEN BEFORE TAX CHANGES, WEIGHING BALANCE FOR MANY COMPANIES IN FAVOR OF LOCATION OUTSIDE QUEBEC. AS TAX CHANGES AFFECT VERY EXECUTIVES WHO MAKE DECISIONS ON HEAD OFFICE AND PERSONNEL MOVEMENTS, ABILITY OF MONTREAL TO RETAIN HEAD OFFICE STAFFS AND OTHER HIGH LEVEL EXECUTIVE PERSONNEL HAS SUFFERED. WHILE TAX BY ITSELF MIGHT NOT BE IMPORTANT, IT WILL UNDOUBTEDLY BE A DETERMINANT, WHEN COMBINED WITH OTHER DISADVANTAGES MANY SEE TO LOCATING IN QUEBEC, IN CAUSING SOME EXECUTIVES, EITHER AS RESULT OF PERSONAL CHOICE OR AS RESULT OF MANAGEMENT DECISION TO REDUCE SALARY COSTS, TO LIVE ELSEWHERE.
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